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Pat Wood, III
Chairman

Judy Walsh
Commissioner

Brett A. Perlman
Commissioner

March 29, 2000

Magalie Roman Salas
Office of the Secretary TW-A306
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

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99-249/

RE: CC Docket No. 96-262, 96-45; FCC 00-533
In the Matter of Implementation of the Local Competition
Provisions in the Telecommunications Act of 1996

To the Secretary:

Enclosed herewith for filing with the Commission are an original plus eleven copies of the Comments of the Public Utility Commission of Texas in the above captioned matter. We are also providing copies to ITS and to the Competitive Pricing Division. We are also providing an electronic copy of these comments via your ECFS interface.

Sincerely,

Stephen J. Davis

Stephen J. Davis
Chief, Office of Policy Development

cc: ITS, Inc.
Wanda Harris, Competitive Pricing Division



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**BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554**

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In the Matter of)	
)	
Price Cap Performance Review)	CC Docket No. 94-1
For Local Exchange Carriers)	
)	
Federal-State Joint Board)	CC Docket No. 96-45
On Universal Service)	
)	
Access Charge Reform)	CC Docket No. 96-262
)	
Low-Volume Long Distance Users)	CC Docket No. <u>99-249</u> /
)	

**COMMENTS OF THE
PUBLIC UTILITY COMMISSION OF TEXAS**

On March 8, 2000, the Federal Communications Commission ("FCC" or "Commission") released a Public Notice (DA 00-533), seeking comment on the Modified Proposal by the Coalition for Affordable Local and Long Distance Services ("Modified CALLS Proposal") for access charge reform. The Modified CALLS Proposal represents a partial industry consensus on a plan to reduce variable rates for interstate service, while increasing fixed charges and increasing the size of the federal Universal Service Fund. Even though the plan is designed to affect only interstate rates and charges, the Modified CALLS Proposal would have a direct impact on the monthly rates of Texas customers and would apply pressure on intrastate rate structures. The Public Utility Commission of Texas ("Texas PUC"), having been given general regulatory authority over public utilities within our jurisdiction in Texas, hereby submits these Comments on the Public Notice.

The Modified CALLS Proposal, as its predecessor, consists of three parts. First, the proposal establishes a new universal service funding mechanism that the CALLS coalition indicates is explicit and portable, designed to replace support that is currently implicit in interstate access charges. Second, the proposal shifts revenue recovery by incumbent Local Exchange Carriers (ILECs) from interexchange carriers to subscribers by eliminating the Pre-subscribed Interexchange Carrier Charge (PICC), phasing out the Carrier Common Line Charge (CCLC), and increasing the Subscriber Line Charge (SLC). Third, the Modified CALLS Proposal reduces per-minute switched access charges by \$2.1 billion and reduces special access rates over time. Interexchange carriers that are part of the CALLS group have agreed to pass through the access charge savings to customers in the form of lower long-distance rates.

The Public Utility Commission of Texas has not had the opportunity to analyze the long-term effects of the Modified CALLS Proposal; however, we provide initial observations and comments on several key points of the proposal.

New Interstate Access-Related Universal Service Mechanism

The Modified CALLS Proposal establishes a new Universal Service Funding mechanism of \$650 million that the sponsors indicate will replace the amount of funding currently implicit in interstate access charges (Access USF). Sponsors indicate that the \$650 million amount reflects “a balancing of public interests defined by the 1996 Act.” AT&T has calculated that the \$650 million support figure can be calculated using the FCC’s HCPM model, although several other sponsors do not support the use of such a model to calculate USF support. The Modified CALLS Proposal includes specific formulas for Access USF

payments to ILECs. Payments into the fund will be based on a percentage of carriers' interstate revenue.

The Texas PUC has a number of concerns with this portion of the Modified CALLS Proposal. The first concern relates to the calculation of the size of the Access USF. The CALLS filing (pp 10-11) indicates that estimates of the implicit support in interstate access charges range from \$250 million to \$3.9 billion. While the sponsors aver that the \$650 million is "a balancing of the public interests," the Texas PUC would urge the Commission to make its own determination concerning the public interest, as it may differ from the interest of the CALLS coalition.

The second concern relates to the distribution of the \$650 million Access USF to ILECs and competitors with the formula prescribed in the plan. The Commission and the Federal-State Joint Board on Universal Service (CC Docket No. 96-45) spent the past four years developing revisions to the Universal Service program for non-rural carriers. The distribution of the non-rural high cost USF is specifically targeted to areas that have high costs relative to other areas throughout the nation. By distributing Access USF to non-rural carriers based only on the differential between the carrier's embedded study area costs and a specified benchmark, the distribution methodology contained in the Modified CALLS Proposal is significantly different from that adopted by the Commission for the current USF. Adopting a standard approach for all federal USF support payments today will facilitate federal USF portability and promote competition in high cost areas. An unduly complex or improperly targeted funding mechanism would stifle these strongly desired goals.

The Federal-State Joint Board and the Commission considered and rejected the use of embedded costs for the distribution of Universal Service support, opting instead for the use of forward-looking costs. Further, the Joint Board and the Commission considered and rejected a methodology, similar to that proposed by the CALLS coalition, that would distribute USF to carriers based on study-area costs relative to a benchmark, opting instead for a methodology that recognizes the ability of each state to provide support if needed. The Texas PUC urges the Commission to not adopt the Access USF aspect of the Modified CALLS Proposal without further consultation with or referral to the Federal-State Joint Board.

Revenue Recovery Shift From PICC/CCL To SLC

The Modified CALLS Proposal eliminates the PICC for non-primary lines immediately, and phases out multiline business PICCs and the CCLC in most areas over a five-year period. Under the Modified CALLS Proposal, the single line residence or business SLC increases from the current \$3.50 monthly charge per line to a cap of \$6.50 over a four-year period. The monthly SLC for multiline business lines is capped at \$9.20 during the term of the proposal.

As the Commission is aware, the local loop constitutes the majority of the joint and common cost of the telecommunications network, and the debate over the allocation of that common line cost has continued for decades. Section 254(k) states (in part):

“The Commission, with respect to interstate services, and the States, with respect to intrastate services, shall establish any necessary cost allocation rules, accounting safeguards, and guidelines to ensure that services included in the definition of universal service bear no more than a reasonable share of the joint and common costs of facilities used to provide those services.”

The Modified CALLS Proposal recovers virtually 100% of the interstate common line cost directly from the subscriber to basic service as included in the definition of universal service. To comply with Section 254(k), the FCC would need to conclude that 100% is a reasonable share of interstate services' joint and common costs to be recovered from services included in the definition of universal service.

Reductions In Switched And Special Access Charges

The Modified CALLS Proposal would reduce traffic sensitive access charges by the productivity factor of 6.5% until the charges reach a target rate level (0.55 cents per minute for Bell and GTE, and 0.65 cents per minute for other price cap ILECs). Special access elements are also reduced by a separate formula. In addition, the Modified CALLS Proposal provides for a one-time \$2.1 billion reduction in switched access usage charges (including CCLC), although the plan is not clear as to the manner in which the reduction will be implemented.

The Texas PUC urges the Commission to examine the overall reduction in access revenues coupled with increases in SLC and other subscriber charges to determine whether this plan yields the same or better productivity advantages than the current rules. Further, the Commission should examine whether the target of half-cent rates represents appropriate cost based rates.

Impact On State Access Charges and USF

The Commission should consider the impact on intrastate access charges if deep reductions occur in interstate access charges. In developing our state USF, the Texas PUC approved intrastate switched access charge reductions to more closely mirror interstate switched access charges. A significant reduction to the CCL was the key component of the intrastate switched access charge reductions for Texas' small and rural ILECs. Other states have chosen to mirror the federal access charges and, if those rates and revenues are reduced, would be required to evaluate increases to other intrastate rates. The Texas PUC encourages the Commission to consider how elimination of the CCL may affect states' intrastate switched access structures and universal service funding mechanisms.

Passing Through The Benefits To Customers

The Modified CALLS Proposal includes a commitment by two major long-distance carriers, AT&T and Sprint, to pass through access charge savings to customers, provided that the \$2.1 billion switched access usage rate reduction occurs by July 1, 2000. The Texas PUC urges the Commission to seek similar commitments from other long-distance carriers, and to ensure that such commitments cannot be avoided through technicalities in the implementation of the overall access charge revision plan. To subscribers who make no interstate long-distance calls, the Modified CALLS Proposal represents only higher fixed monthly rates; in order for customers who make interstate long-distance calls to see any benefit to the plan, all major long distance carriers must provide corresponding rate reductions.

Conclusion

The Texas PUC appreciates the opportunity to provide these Comments on the Modified CALLS Proposal. The Commission's decision should reflect the interest of all stakeholders involved in access charge reform, including providers, competitors, and customers. The Federal-State Joint Board on Universal Service should be consulted on those portions of this proposal involving the \$650 million USF.

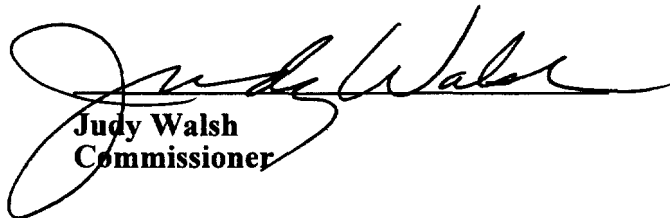
Respectfully submitted,

**Public Utility Commission of Texas
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March 23, 2000



**Pat Wood, III
Chairman**



**Judy Walsh
Commissioner**



**Brett A. Perlman
Commissioner**